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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 003926

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TAGS: [ECON](#) [EINV](#) [ETTC](#) [PREL](#) [CH](#) [TW](#)
SUBJECT: IS CROSS-STRAIT SEMICONDUCTOR INVESTMENT
LIBERALIZATION IMMINENT?

REF: TAIPEI 2919

Classified By: AIT Economic Section Chief Daniel K. Moore, Reason 1.4 b
/d

¶1. (C) Summary: Mainland Affairs Council (MAC) and Ministry of Economic Affairs (MOEA) officials last week said publicly that Taiwan was preparing to ease restrictions on semiconductor manufacturing investment in the PRC by the end of the year. However, Taiwan has previously made similar noises that semiconductor liberalization was imminent, which did not materialize. In any event, Taiwan's regulations have not been effective at keeping advanced semiconductor manufacturing out of the PRC. At the same time, Taiwan's semiconductor manufacturers continue to invest heavily in Taiwan. This fact should give Taiwan the confidence to move forward with liberalization. End summary.

By Year's End?

¶2. (U) Last week, MAC Chairman Joseph Wu and MOEA Investment Commission Executive Secretary Huang Chin-tan separately told the press Taiwan was preparing to permit Taiwan semiconductor manufacturers to build plants in the PRC that use more advanced technology. For several years, Taiwan firms have urged the authorities to allow facilities in the PRC that produce chips with feature size down to the 0.18-micron level. Wu and Huang both suggested Taiwan would permit 0.18-micron investment by the end of the year and indicated MOEA was finalizing the new regulations for such investment. Wu and Huang's comments were widely reported both in Taiwan media and semiconductors industry publications.

¶3. (U) Taiwan has permitted investment using 0.25-micron technology since August 2002 when it announced that three firms could each set up one manufacturing facility in the Mainland. To date, the Taiwan authorities have approved only one firm, Taiwan Semiconductor Manufacturing Company (TSMC), to invest. TSMC's plant in Songjiang near Shanghai has been operational since 2004. ProMos and Powerchip Semiconductor Corporation, both DRAM manufacturers, applied in December 2004 to build factories in the PRC, but the Ministry of Economic

Affairs has yet to process their applications.

Industry Has Been Disappointed Before

¶4. (SBU) The statements from MAC and MOEA appear to be a fairly strong indication that Taiwan will finally liberalize 0.18-micron investment. MAC Chairman Wu's confirmation of the MOEA statement is an important sign of the commitment to move forward. However, Taiwan officials have indicated on more than one occasion that liberalization of 0.18-micron technology was just around the corner only to back away later. Most recently, former Minister of Economic Affairs Hwang Ing-san said on August 1 that Taiwan would announce regulations for 0.18-micron investment by the end of August (reftel). He was fired two days later, and his replacement, Steve Chen, backed away from the statement.

¶5. (C) MAC Economics Department Senior Secretary Lee Li-jane told AIT that MAC had signed off on MOEA's proposal to permit 0.18-micron investment but emphasized that further interagency discussion and consultations with the Legislative Yuan were required before the new regulations would be announced. MOEA's Huang told AIT the decision was not final and said new regulations would not be officially announced until after the December 9 mayoral elections. On November 17, the pro-independence Taiwan Solidarity Union's (TSU) legislative caucus voiced its strong opposition to liberalizing investment in the more advanced technology. Comment: Lee's reference to consultations with the LY, Huang's timeline based on coming elections, and continuing deep-Green opposition

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suggest politics could yet again prevent Taiwan from further liberalizing semiconductor investment this year. End comment.

Ineffective Technology Control

¶6. (SBU) Taiwan's regulations have not been effective at preventing PRC semiconductor manufacturers from acquiring highly-advanced semiconductor technology. Semiconductor Manufacturing International Corporation (SMIC) of Shanghai has produced 90-nanometer chips since the third quarter of this year. It plans to begin making 65-nanometer chips, the most advanced technology currently in mass production, during the second half of 2007. Chips with feature size finer than 0.18 microns account for more than half of SMIC's sales so far this year. He Jian Technology Company of Suzhou also produces 0.18-micron chips. Prosecutors in Taiwan continue to investigate United Microelectronics Corporation (UMC), Taiwan's second largest semiconductor foundry, for possible illegal investment in He Jian.

Taiwan Cluster Continues to Grow

¶7. (U) Even as they push Taipei to ease restrictions on investment in the Mainland, Taiwan's semiconductor manufacturers continue investing heavily on the island. According to Taiwan's Industrial Technology Research Institute (ITRI), Taiwan has more 12-inch wafer fabs than any other market in the world with a total of 10. (Note: Wafer size determines the number of chips that can be cut from a single wafer. Larger wafers provide more economies of scale. Twelve-inch wafer fabs are currently the most advanced in the industry. Wafer size does not, however, determine the feature size of the individual chips. End note.) There are currently six new 12-inch fabs under construction in Taiwan and local manufacturers have announced plans to build up to eight more. Each fab costs as much as US\$3 billion to build.

18. (C) In the TSU's November 17 statement, it took credit for keeping advanced semiconductor manufacturing technology in Taiwan by standing firm on further cross-Strait opening. However, large-scale investment by Taiwan semiconductor manufacturers in Taiwan shows that Taiwan's investment environment for semiconductor manufacturing still has strong advantages regardless of cross-Strait restrictions. Over the years, Taiwan investors have repeatedly demonstrated that Taiwan's restrictions are not effective at keeping investment in Taiwan. He Jian, SMIC and Grace Semiconductors are all Mainland firms founded with assistance from Taiwan (or Taiwan-American) investors and engineers. Regulations are not forcing Taiwan firms to invest here. Taiwan's semiconductor manufacturers are spending multi-billions to build 12-inch fabs in Taiwan because they believe it's a profitable place to make semiconductors. This fact should give Taiwan officials the confidence to move forward with liberalization of cross-Strait restrictions.

YOUNG